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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76960; File No. SR-CBOE-2015-107)

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to Price Protection Mechanisms For Quotes and Orders

January 21, 2016

I. Introduction

Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed on November 24, 2015, with the Securities and Exchange Commission (the “Commission”), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposal to enhance its current price protection mechanisms and adopt certain new price protection functionality for orders and quotes. On December 4, 2015, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on December 11, 2015.³ On December 29, 2015, the Exchange filed Amendment No. 2 to the proposed rule change.⁴ The Commission received

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 76585 (December 8, 2015), 80 FR 77038 (December 11, 2015) (“Notice”).

⁴ In Amendment No. 2, the Exchange amended the proposed rule language to (i) clarify that it will notify Trading Permit Holders by electronic message if the Exchange determines that the put strike price or call underlying value check should not apply in the interest of maintaining a fair and orderly market under proposed Exchange Rule 6.14(a)(ii) and (ii) limit the potential range of the percentage amount used to calculate the maximum value acceptable price range check in proposed Exchange Rule 6.53C, Interpretation and Policy .08(g)(1)(iii). In Amendment No. 2, CBOE also represented that it will document, retain, and periodically review any Exchange decision to not apply the put check or call check under proposed Exchange Rule 6.14(a)(ii), including the reason for the decision. See Amendment No. 2 to File No. SR-CBOE-2015-107, dated December 29, 2015 (“Amendment No. 2”). To promote transparency of its proposed amendment, when CBOE filed Amendment No. 2 with the Commission, it also submitted

no substantive comment letters on the proposal. This order approves the proposed rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis.

II. Description of the Proposed Rule Change, as Modified by Amendment Nos. 1 and 2

The Exchange proposes to adopt new Exchange Rule 6.14 and amend Exchange Rule 6.53C, Interpretation and Policy .08, to enhance its current price protection mechanisms for orders and quotes in order to help prevent potentially erroneous executions.⁵

A. Put Strike Price and Call Underlying Value Checks

Proposed Exchange Rule 6.14(a) will provide a new price protection functionality pursuant to which the Exchange's Hybrid Trading System ("System") will reject back to the Trading Permit Holder a quote or buy limit order for (i) a put if the price of the quote bid or order is equal to or greater than the strike price of the option or (ii) a call if the price of the quote bid or order is equal to or greater than the consolidated last sale price of the underlying security, with respect to equity and exchange-traded fund options, or the last disseminated underlying index value, with respect to index options.⁶ The Exchange may determine not to apply this

Amendment No. 2 as a comment letter to the file, which the Commission posted on its website and placed in the public comment file for SR-CBOE-2015-107. The Exchange also posted a copy of its Amendment No. 2 on its website (<http://www.cboe.com/aboutcboe/legal/submittedsecfilings.aspx>) when it filed the amendment with the Commission.

⁵ For a more detailed description of each proposed price protection mechanism, see Notice, supra note 3.

⁶ If the System rejects a Market Maker's quote pursuant to either proposed price check, the Exchange will cancel any resting quote of the Market Maker in the same series. See proposed Exchange Rule 6.14(a); see also Notice, supra note 3, at 77038. These proposed checks also will apply to buy auction responses in the same manner as it does to orders and quotes, as well as pairs of orders submitted to the Exchange's Automated Improvement Mechanism ("AIM"), Solicitation Auction Mechanism ("SAM"), or as a qualified cross-contingent order ("QCC order"). See id.

proposed price protection mechanism if a senior official at the Exchange's Help Desk determines the applicable check should not apply in the interest of maintaining a fair and orderly market.⁷

B. Quote Inverting NBBO Check

Proposed Exchange Rule 6.14(b) will apply new a price reasonability check to Market Maker quotes based on the national best bid or offer ("NBBO") or the Exchange's best bid or offer if the NBBO is unavailable.⁸ Specifically, if CBOE is at the NBBO, the System will reject a quote back to a Market Maker if the quote bid or offer crosses the opposite side of the NBBO by more than a number of ticks specified by the Exchange.⁹ If CBOE is not at the NBBO, the System will reject a quote back to a Market-Maker if the quote bid or offer locks or crosses the opposite side of the NBBO.¹⁰ The Exchange may determine not to apply this check to quotes entered during the pre-opening, a trading rotation, or a trading halt, and would announce to Trading Permit Holders any such determination thorough a Regulatory Circular.¹¹

⁷ See proposed Exchange Rule 6.14(a)(ii); see also Notice, supra note 3, at 77039. The Exchange represented that it will document, retain, and periodically review any decision to not apply the put check or call check, including the reason for the decision. See Amendment No. 2, supra note 4.

⁸ See proposed Exchange Rule 6.14(b); see also Notice, supra note 3, at 77039-41.

⁹ The Exchange states that the number of ticks will be no less than three minimum increment ticks and announced to Trading Permit Holders by Regulatory Circular. See proposed Exchange Rule 6.14(b); see also Notice, supra note 3, at 77040. In addition, proposed Exchange Rule 6.14(b)(iii) addresses situations where CBOE accepts a quote that locks or crosses the NBBO.

¹⁰ See proposed Exchange Rule 6.14(b)(i); see also Notice, supra note 3, at 77040. As an additional risk control feature, if a Market Maker submits a quote in a series in which the Market Maker already has a resting quote and the Exchange rejects that quote pursuant to this proposed check, the Exchange will cancel the Market Maker's resting quote in the series. See Notice, supra note 3, at 77040.

¹¹ See proposed Exchange Rule 6.14(b)(ii); see also Notice, supra note 3, at 77040. Additionally, this proposed check will not apply if a senior official at the Exchange's Help Desk determines it should not apply in the interest of maintaining a fair and orderly market. See id.

C. Debit/Credit Price Reasonability Checks

The Exchange proposes to amend its price check parameters applicable to complex orders that are contained in current Exchange Rule 6.53C, Interpretation and Policy .08(c), to prevent the automatic execution of complex orders that appear to be erroneously priced based on general options volatility and pricing principles.¹² Under current Exchange Rule 6.53C, Interpretation and Policy .08(c), the System will not automatically execute (i) a limit order for a debit strategy with a net credit price that should have been entered at a net debit price, (ii) a limit order for a credit strategy with a net debit price that should have been entered at a net credit price, and (iii) a market order for a credit strategy that would be executed at a net debit price when it should execute at a net credit price.¹³ The amended rule expands this check to certain complex orders which the System can determine are credits or debits.¹⁴

D. Maximum Value Acceptable Price Range Check

Finally, the Exchange proposes to amend Exchange Rule 6.53C, Interpretation and Policy .08, to add an additional price check for complex orders. The new price check would apply to vertical, true butterfly, and box spreads, and would block executions of such strategies at prices that exceed their quantifiable maximum possible values by more than a reasonable amount.¹⁵ Under the proposed rule, the Exchange will determine the acceptable price range for these

¹² See proposed Exchange Rule 6.53C, Interpretation and Policy .08(c); see also Notice, supra note 3, at 77041-43.

¹³ See Notice, supra note 3, at 77041.

¹⁴ See id. at 77041. The proposed rule contains new definitions of vertical spread, butterfly spread and box spread, and states how the System will define a complex order as a debit or credit. See id. at 77041-43; see also proposed Exchange Rule 6.53C, Interpretation and Policy .08(c). These checks will also apply to buy auction responses and pairs of orders submitted to AIM, SAM, or as a QCC order. See proposed Exchange Rule 6.53C, Interpretation and Policy .08(c)(4)-(5); see also Notice, supra note 3, at 77043.

¹⁵ See proposed Exchange Rule 6.53C, Interpretation and Policy .08(g); see also Notice, supra note 3, at 77044-45.

strategies and will reject back to the Trading Permit Holder any limit order and cancel any market order that does not satisfy this proposed check.¹⁶

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with section 6(b) of the Act.¹⁷ In particular, the Commission finds that the proposed rule change is consistent with sections 6(b)(5) of the Act,¹⁸ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the proposed new price protection mechanisms are reasonably designed to promote just and equitable principles of trade to the extent they are able to mitigate potential risks associated with market participants entering orders at what CBOE believes are clearly unintended prices and executing trades at prices that are both extreme and potentially erroneous.¹⁹ Specifically, the Commission believes that the proposed price protection for simple orders to buy put and call options based on the strike price or underlying value,

¹⁶ See Notice, supra note 3, at 77044-45. The proposed check will also apply to auction responses and pairs of orders submitted to AIM, SAM, or as a QCC order. See id.

¹⁷ 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁸ 15 U.S.C. 78f(b)(5).

¹⁹ See Notice, supra note 3, at 77045.

respectively, is designed to promote fair and orderly markets and protect investors by rejecting quotes and orders that exceed the strike price for puts and the value of the underlying for calls, which may likely have occurred due to human or operational error. The Commission also believes that the proposed quote inverting NBBO check is reasonably designed to promote just and equitable principles of trade by preventing potential price dislocation that could result from erroneous Market Maker quotes sweeping through multiple price points.²⁰

In addition, the proposed enhanced price checks that would apply to complex orders, including the debit and credit price reasonability checks and the maximum value acceptable price range checks, are designed to mitigate the potential risks associated with complex orders trading at prices that likely are inconsistent with their strategies and could potentially result in erroneous executions.²¹ Furthermore, the Commission believes that the proposed maximum value acceptable price range adds a second layer of price protection to complex strategies that is reasonably designed to mitigate the potential risks associated with orders that have complex strategies with quantifiable maximum values trading at prices that are potentially erroneous.²²

Accordingly, for the reasons discussed above, the Commission believes that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 2 is consistent with the Act. Comments may be submitted by any of the following methods:

²⁰ See Notice, supra note 3, at 77045.

²¹ See Notice, supra note 3, at 77046.

²² See Notice, supra note 3, at 77046.

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2015-107 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2015-107. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2015-107 and should be submitted on or before **[INSERT DATE 21 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2

The Commission finds good cause, pursuant to section 19(b)(2) of the Act, to approve the proposed rule change, as modified by Amendment Nos. 1 and 2, prior to the 30th day after the date of publication of Amendment No. 2 in the **Federal Register**. As discussed above, Amendment No. 2 clarified that the Exchange will notify Trading Permit Holders by electronic message if the Exchange determines that the put strike price or call underlying value check should not apply in the interest of maintaining a fair and orderly market under proposed Exchange Rule 6.14(a)(ii).²³ CBOE also represented in Amendment No. 2 that the Exchange will document, retain, and periodically review any Exchange decision to not apply the put check or call check under proposed Exchange Rule 6.14(a)(ii), including the reason for the decision.²⁴ Lastly, in Amendment No. 2, CBOE clarified that the potential range of the percentage amount it will use to calculate the maximum value acceptable price range check in proposed Exchange Rule 6.53C, Interpretation and Policy .08(g)(1)(iii), is between 1% and 5%.²⁵ The Commission believes that these changes provide greater clarity and remove any possible uncertainty regarding the potential exercise of Exchange discretion with regard to the proposed price protection mechanisms. In particular, the representation about documenting, retaining, and periodically reviewing decisions to suspend a price check will enable CBOE to monitor the actions of its senior Help Desk personnel and assure that the suspension of any price check is appropriate and consistent with CBOE's responsibilities as a self-regulatory organization and the principles articulated in the Act that are applicable to exchanges. Further, clarifying the possible range of the maximum value acceptable price range provides valuable information to Trading Permit

²³ See Amendment No. 2, supra note 4.

²⁴ Id.

²⁵ Id.

Holders to help them better understand and evaluate this price protection functionality.

Accordingly, the Commission finds good cause for approving the proposed rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis, pursuant to section 19(b)(2) of the Act.

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to section 19(b)(2) of the Act²⁶ that the proposed rule change (SR-CBOE-2015-107), as modified by Amendment Nos. 1 and 2, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Brent J. Fields
Secretary

²⁶ 15 U.S.C. 78f(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).

